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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

In the matter of:)	DOCKET NO. S-03556A-04-0000
MEE DIAMOND & JEWELRY, INC., an)	NOTICE OF OPPORTUNITY FOR
Arizona corporation)	HEARING REGARDING PROPOSED
2550 E. Denton Lane)	ORDER TO CEASE AND DESIST,
Phoenix, AZ 85016)	ORDER FOR RESTITUTION, FOR
CHRISTOPHER S. MEE, an unmarried man)	ADMINISTRATIVE PENALTIES, AND
2550 E. Denton Lane)	FOR OTHER AFFIRMATIVE ACTION
Phoenix, AZ 85016)	
Respondents.)	

NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING
EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER

The Securities Division (“Division”) of the Arizona Corporation Commission (“Commission”) alleges that RESPONDENTS, MEE DIAMOND & JEWELRY, INC., an Arizona corporation, dba DIAMOND SHOWCASE and CHRISTOPHER S. MEE have engaged in acts, practices and transactions, which constitute violations of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* (“Securities Act”).

I.
JURISDICTION

1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

II.

RESPONDENTS

2. MEE DIAMOND & JEWELRY, INC., an Arizona corporation, dba DIAMOND SHOWCASE is an entity which began operations in 2001 as a sole proprietorship and was subsequently incorporated on April 12, 2002 ("MEE DIAMOND"). The RESPONDENTS represent MEE DIAMOND to be a retailer, whole saler and e-commerce marketer of diamonds and jewelry. The last known business address of MEE DIAMOND is 2550 E. Denton Lane, Phoenix, AZ 85016.

3. CHRISTOPER S. MEE ("MEE") is an unmarried individual whose last known business address is 2550 E. Denton Lane, Phoenix, AZ 85016.

4. At all times material hereto, MEE was a resident of the state of Arizona. MEE did acts within or from Arizona out of which the claims in this action arose. MEE was not registered to sell securities within or from the state of Arizona.

5. MEE DIAMOND and MEE may be collectively referred to as "RESPONDENTS."

III.**FACTS**

6. Each of the preceding paragraphs is incorporated herein by reference.

7. Since at least July, 2002, RESPONDENTS have been directly or indirectly engaged in the offer and sale of securities as defined by A.R.S. §44-1801(26) to the general public in Arizona.

8. At all times material hereto, MEE was the president, chief financial officer and control person of MEE DIAMOND. In these capacities, MEE controls and bears responsibility for the company's financial affairs and investor solicitation activities.

9. Arizona residents were solicited by the RESPONDENTS through radio advertisements and general unsolicited mailings concerning various investment opportunities in MEE DIAMOND.

1 10. As part of the solicitation efforts, RESPONDENTS prepared, supported, procured
2 and/or dispatched various summaries to prospective investors outlining the business plans and
3 the terms of the MEE DIAMOND investment options.

4 11. According to offering materials, the RESPONDENTS were directly or indirectly
5 seeking to raise (i) \$1 million through the sale of "Series 1 and 2 nonvoting preferred
6 redeemable stock" in MEE DIAMOND for a purchase price of \$1.00 per share (with a
7 minimum investment ranging from \$10,000 to \$25,000), (ii) \$1 million through the sale of
8 "investment contracts" by which the investors would "purchase one or more diamonds [at the
9 company's cost] and then immediately consign the diamonds back to the company for sale"
10 pursuant to the terms of a "Diamond Consignment Program Agreement" executed by the
11 company and the investor (with a \$50,000 minimum investment), and/or (iii) an undisclosed
12 amount through inventory financing with a \$25, 000 investment.

13 12. In what was termed a private placement offering dated November 26, 2002 (the
14 "POM"), the RESPONDENTS represented that the offering was being made pursuant to
15 registration exemptions under "Section 4(2) of the federal Securities Act of 1933" and
16 "comparable exemptions under state law."

17 13. In response to a general solicitation by the RESPONDENTS, an investor arranged to
18 meet with MEE. During this meeting, and at various times subsequent thereto, MEE
19 represented to the investor, among other things, that: (i) he owned a successful call center in
20 California; (ii) he was involved with a successful energy company; (iii) he had been operating
21 his local jewelry business for ten years; (iv) in addition to the Arizona location, he operated a
22 successful jewelry business in Pennsylvania; and (v) that MEE DIAMOND was in satisfactory
23 financial condition. In fact, these statements were misleading and/or untrue.

24 14. The POM represented that MEE had a solid background and vast experience in the
25 industry to successfully manage the business venture, and that the company was substantially
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1 dependent on his personal efforts and abilities. In fact, this statement was misleading and/or
2 untrue.

3 15. Neither the POM nor MEE, however, disclosed that MEE (and his Pennsylvania-based
4 company, Boston-Finney, Inc.) was subject to: (i) an order entered on August 21, 1998 in
5 cause number 717631 in the Superior Court of the State of California, County of San Diego,
6 for violations of that state's Penal Code section 327, permanently enjoining the further use of
7 misleading and false statements [fraud], to prevent the use of an endless chain [pyramid]
8 marketing scheme in the sale of electric power, and for the payment of restitution and
9 penalties; and (ii) an order entered on or about June 16, 1998 in cause number 183 M.D. 1998
10 in the Commonwealth Court of Pennsylvania for violations of that state's Unfair Trade
11 Practices and Consumer Protection Law, permanently enjoining any further use of misleading
12 and false statements [fraud], to prevent the use of an endless chain [pyramid] marketing
13 scheme in the resale of electric generation, natural gas supply, and energy conservation
14 technologies, products and services, and for the payment of restitution and penalties
15 (collectively, "Orders").

16 16. According to the POM, thirty percent (30%) of the proceeds from the sale of Preferred
17 Stock was to be used for certain specified operating costs only and the remaining seventy
18 percent (70%) were to be used to increase the inventory of diamonds available to MEE
19 DIAMOND for sale. In fact, said funds have been utilized for business expenses other than
20 those delineated in the POM and for personal expenses of MEE.

21 17. On February 21, 2003, MEE DIAMOND filed a *Form D, Notice of Sale of Securities*
22 *Pursuant to Regulation D, Section 4(6) and/or Uniform Limited Offering Exemption* (the
23 "Form D") with the Securities Division¹ pursuant to A.C.C. R14-4-140 ("Rule 140") (i.e.,
24 limited offerings and sales not exceeding \$1 million exclusively to accredited investors). The
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26 ¹ Issuers must file a copy of Form D within 15 calendar days after the first sale within or from Arizona, a consent to service of process, a copy of the general announcement of the offering, and the filing fee. A.A.C. R14-4-140(L).

1 Form D stated that the filing was under federal Rule 504. The Form D was executed by MEE
2 as President of MEE DIAMOND.

3 18. While the POM and MEE disclosed that MEE DIAMOND was a new company and
4 that principal operations had commenced, neither the POM nor MEE disclosed that no
5 significant revenue had been derived from such operations. As a result, MEE DIAMOND is
6 considered to be in the development stage.² Under federal Rule 504, the issuer [MEE
7 DIAMOND] may not be a development stage company.

8 19. The Form D contains a sworn statement by MEE that he is “not subject to the
9 disqualification provisions” described in 17 C.F.R. 230.262 (the “bad boy provisions”). The
10 offer and sale by an issuer in compliance with federal Rule 504 shall be exempt from the
11 registration requirements of A.R.S. §§44-1841 and 44-1842 subject to the provisions of Rule
12 140(M) (the “bad boy provisions”). As a result of the entry of the Orders, MEE was subject
13 to the bad boy provisions at the time of the filing of the Form D. Therefore, the exemption
14 from the registration requirements of A.R.S. §§ 44-1841 and 44-1842 was not available to
15 MEE DIAMOND.

16 20. The offer and sale of securities by the RESPONDENTS failed to comply with federal
17 Rule 504. As a result, the exemption from the registration requirements of A.R.S. §§ 44-1841
18 and 44-1842 provided under Rule 140 was not available to the RESPONDENTS.

19 21. At least Twenty-five Thousand Dollars (\$25,000.00) in investor funds has been raised
20 from investors from Arizona from the offer and sale of preferred stock in MEE DIAMOND by
21 the RESPONDENTS.

22 IV.

23 VIOLATION OF A.R.S. § 44-1841

24 (Offer or Sale of Unregistered Securities)

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² Definition of Terms Used in Regulations S-X, 17 C.F.R. §210.1-02(h).

22. Each of the preceding paragraphs is incorporated herein by reference.

23. From July 2002, RESPONDENTS offered or sold securities in the form of stock and investment contracts within or from Arizona.

24. The securities referred to above were neither registered nor exempt from registration pursuant to the provisions of Articles 6 or 7 of the Securities Act.

25. This conduct violates A.R.S. § 44-1841.

V.

VIOLATION OF A.R.S. § 44-1842

(Transactions by Unregistered Dealers or Salesmen)

26. Each of the preceding paragraphs is incorporated herein by reference.

27. RESPONDENTS offered or sold securities within or from Arizona, while neither registered as dealers or salesmen nor exempt from registration pursuant to the provisions of Article 9 of the Securities Act.

28. This conduct violates A.R.S. § 44-1842.

VI.

VIOLATION OF A.R.S. § 44-1991

(Fraud in Connection with the Offer or Sale of Securities)

29. Each of the foregoing paragraphs is incorporated herein by reference.

30. In connection with the offer or sale of securities within or from Arizona, RESPONDENTS directly or indirectly: (i) employed a device, scheme or artifice to defraud; (ii) made untrue statements of material fact or omitted to state material facts which were necessary in order to make the statements made not misleading in light of the circumstances under which they were made; and (iii) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon offerees and investors. RESPONDENTS' conduct includes, but is not limited to, the following:

1 a) directly or indirectly misrepresenting to offerees and investors that
2 investor funds were to be used for specified operating expenses when in fact funds
3 were used for general operating expenses.

4 b) directly or indirectly misrepresenting to offerees and investors that the
5 securities being offered are exempt from state and federal securities registration
6 provisions when in fact the securities are not eligible for such exemptions;

7 c) directly or indirectly misrepresenting to offerees and investors that the
8 RESPONDENTS were exempt from registration as either salesmen or dealers within
9 the state of Arizona when in fact they were not eligible for such exemption;

10 d) failing to disclose to offerees and investors of the state actions against
11 MEE and of the potential consequences of those orders with respect to their
12 investment; and

13 e) directly or indirectly misrepresenting to offerees and investors
14 information about the qualification of officers and key personnel of the company.

15 31. This conduct violates A.R.S. § 44-1991.

16 32. RESPONDENTS made, participated in or induced the sale or purchase of a security
17 within the meaning of A.R.S. § 44-2003(A). Therefore, RESPONDENTS are jointly and
18 severally liable for the above violations of A. R.S. §44-1841, A.R.S. §44-1842, and A.R.S. §44-
19 1991.

20 **VII.**

21 **VIOLATION OF A.R.S. § 44-1992**

22 **(Filing of Misleading Information with the Commission)**

23 33. Each of the preceding paragraphs are incorporated herein by reference.

24 34. The RESPONDENTS subscribed to or caused to be made an untrue statement of
25 material fact or omitted to state material facts which were necessary in order to make the
26 statements made not misleading in light of the circumstances under which they were made in

1 an application, registration statement, prospectus, financial statement or document required to
2 be filed under the Securities Act or any rule, regulation or order of the Commission.

3 35. This conduct violates A.R.S. § 44-1992.

4 **XII.**

5 **REQUESTED RELIEF**

6 The Division requests that the Commission grant the following relief against
7 RESPONDENTS:

8 1. Order RESPONDENTS to permanently cease and desist from violating the
9 Securities Act pursuant to A.R.S. §44-2032;

10 2. Order RESPONDENTS to take affirmative action to correct the conditions
11 resulting from their acts, practices or transactions, including a requirement to make restitution
12 pursuant to A.R.S. §44-2032;

13 3. Order RESPONDENTS to pay the state of Arizona administrative penalties of up
14 to five thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. §
15 44-2036; and

16 4. Order any other relief that the Commission deems appropriate.

17 **XIII.**

18 **HEARING OPPORTUNITY**

19 RESPONDENTS may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C.
20 R14-4-306. **If any RESPONDENT requests a hearing, the RESPONDENT must also**
21 **answer this Notice.** A request for hearing must be in writing and received by the Commission
22 within 10 business days after service of this Notice of Opportunity for Hearing. Each
23 RESPONDENT must deliver or mail the request to Docket Control, Arizona Corporation
24 Commission, 1200 W. Washington, Phoenix, Arizona 85007. A Docket Control cover sheet
25 must accompany the request. A cover sheet form and instructions may be obtained from
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1 Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at
2 www.cc.state.az.us/utility/forms/index.htm.

3 If a request for a hearing is timely made, the Commission shall schedule the hearing to
4 begin 20 to 60 days from the receipt of the request unless otherwise provided by law,
5 stipulated by the parties, or ordered by the Commission. If a request for a hearing is not timely
6 made, the Commission may, without a hearing, enter an order against each RESPONDENT
7 granting the relief requested by the Division in this Notice of Opportunity for Hearing.

8 Persons with a disability may request a reasonable accommodation such as a sign
9 language interpreter, as well as request this document in an alternative format, by contacting
10 Yvonne L. McFarlin, Executive Assistant to the Executive Secretary, voice phone number
11 602/542-3931, e-mail ymcfarlin@cc.state.az.us. Requests should be made as early as possible
12 to allow time to arrange the accommodation.

13 **XIV.**

14 **ANSWER REQUIREMENT**

15 Pursuant to A.A.C. R14-4-305, if any RESPONDENT requests a hearing,
16 RESPONDENT must deliver or mail an Answer to this Notice of Opportunity for Hearing to
17 Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona
18 85007, within 30 calendar days after the date of service of this Notice of Opportunity for
19 Hearing. A Docket Control cover sheet must accompany the Answer. A cover sheet form and
20 instructions may be obtained from Docket Control by calling (602) 542-3477 or on the
21 Commission's Internet web site at www.cc.state.az.us/utility/forms/index.htm.

22 Additionally, RESPONDENT must serve the Answer upon the Division. Pursuant to
23 A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-delivering a
24 copy of the Answer to the Division at 1300 West Washington, 3rd Floor, Phoenix, Arizona,
25 85007, addressed to Julie A. Coleman.

